NOTICE OF CORRECTED PAGES

TO: Service List - D.T.E. 99-19

RE: Boston Edison/ComEnergy Merger, D.T.E. 99-19 (1999)

CC: Mary Cottrell, Secretary

Please find corrected pages 84 and 85 in the referenced matter. These pages correct numbers derived from two computational errors made on page 84. The first error was in the computation of merger-related costs from the record evidence of $135 million and $205.7 million in merger related costs. The sum is $340.7 million, not $308.7 million. The corrections that are necessary due to this error are made in the text of attached corrected pages. The second error was in the formulaic explanation of the record evidence of the $205.7 million in acquisition premium amortizations. The correction that is necessary due to this error is made in footnote 51 of the attached corrected pages.

By Order of the Department,

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Paul B. Vasington, Chairman

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James Connelly, Commissioner

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W. Robert Keating, Commissioner

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Paul B. Vasington, Commissioner

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Eugene J. Sullivan, Commissioner

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Deirdre K. Manning, Commissioner

would probably be realized through the merger between the years 2000 and 2009. The Joint Petitioners have provided detailed, substantial, and credible evidence in support of these projections, as Mergers and Acquisitions, D.P.U. 93-167-A at 7, requires (Exhs. TJF-3, TJF-4, TJF-5A though 5V; Tr. 3, at 310). The projected merger-related costs during that same period, including the amortization of the acquisition premium, are estimated to be \$340.7 million. These merger-related costs consist of \$135 million in after-tax transaction and system integration costs and \$205.7[51] million in acquisition premium amortizations.[52] Therefore, merger-related benefits are projected to exceed merger-related costs by approximately \$291.8 million, which goes well beyond meeting the Department's "no net harm" standard to the point of actually providing net benefits to customers. Even if the merger does not produce the level of net savings anticipated by the Joint Petitioners, the magnitude of the difference between the approximately \$632.5 million in savings and \$340.7 million in costs supports the conclusion that significant savings to ratepayers will likely result from the merger.[53]

Because the acquisition premium would continue to be amortized over a remaining period of 30 years after the ten-year rate freeze from which merger-related savings were derived, the effect of the acquisition premium would remain a cost which must be accounted for as part of our G.L. c. 164, § 96 standard as applied to the recovery of acquisition premiums.

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51 \$500 million in recoverable acquisition premiums multiplied by a tax factor of 1.6454 (1/.60775, the reciprocal of the total effective income tax rate) equals \$822.7 million. \$822.7 million divided by 40 years equals the annual amortization amount of \$20.57 million times 10 equals the cost for the first 10 years of \$205.7 million.

52 The Department considers the acquisition premium, if recovery is sought, to be one of the costs that must be examined in evaluating the costs and benefits of a proposed merger. Mergers and Acquisitions, D.P.U. 93-167-A at 18-19.

53 The Department has noted that a finding that a proposed merger or acquisition would probably yield a net benefit does not mean that such a transaction must yield a net benefit to satisfy D.P.U. 850. Eastern-Essex Acquisition, D.T.E. 98-27, at 8 (1998).

The net present value of the $20.6 million annual amortization of the acquisition premium, discounted at a rate of 11 percent[54] over the remaining period of 30 years, is approximately $179 million.[55] Therefore, even without consideration of merger-related savings that may continue beyond the ten-year savings timeframe, the total costs related to the merger of $519.7 million[56] are still considerably less than the merger-related savings of $632.5 million. Accordingly, upon this conclusive showing, the Department finds that the merger will produce significant benefits for ratepayers and, as discussed below, will allow the merger-related costs proposed by the Joint Petitioners to be included in the cost of service of any future rate proceeding.

Under the Rate Plan, during the distribution rate freeze, the Joint Petitioners will be at risk to achieve cost synergies sufficient to offset the costs of the merger (Exhibit RDW-1, at 10-11). When the rate freeze is over, rate proceedings for each of the Joint Petitioners will account for the opportunity to recover merger costs and for savings resulting from the merger. As in Eastern-Essex Acquisition, D.T.E. 98-27, at 14 (1998), the opportunity to recover is expressly acknowledged. The record here amply supports the probable validity of the Joint Petitioners' forecast of savings (Exhs. TJF-5A through TJF-5U). All forecasts have, however, their limitations, especially in later years. During the initial rate freeze period, the incentive is strongest for the companies to seek synergies and consequent savings (which, of course, is not

54 This calculation uses a return on equity that corresponds to those returns recently granted by the Department. Eastern-Colonial Acquisition, D.T.E. 98-128, at 52-53 (1999).

55 $PV_{30} = (20.6/(1+.11)) + (20.6/(1+.11)^2) + \ldots + (20.6/(1+.11)^{30})$.

56 $340.7 million in costs over ten years, plus $179.0 million present value costs after year ten.